

Message Text

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PAGE 01 PARIS 36870 01 OF 02 191624Z
ACTION AID-59

INFO OCT-01 EUR-12 NEA-10 EB-08 IGA-02 L-03 CIAE-00
DODE-00 SP-02 SS-15 (ISO) W
-----068818 042009Z /40
R 191605Z DEC 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 3258
INFO AMEMBASSY COLOMBO
AMEMBASSY NEW DELHI

LIMITED OFFICIAL USE SECTION 01 OF 02 PARIS 36870

USOECD

AIDAC

E.O. 11652: N/A
SUBJECT: SRI LANKA AID GROUP INFORMATION MEETING -
DECEMBER 15, 1977

REF: STATE 295151

1. SUMMARY: DONORS TO SRI LANKA MUCH ENCOURAGED BY NEW GOVERNMENT'S PROGRAM TO LIBERALIZE AND STIMULATE ECONOMY. THEY GENERALLY AGREE WITH IBRD AND IMF THAT SRI LANKA DESERVES ADEQUATE OUTSIDE ASSISTANCE AS IT SEEKS TO IMPLEMENT THIS PROGRAM. IBRD/IMF SAYS THAT MUCH OF ASSISTANCE IN NEXT FEW YEARS SHOULD BE IN FORM OF PROGRAM AID. REGULAR MAY 1978 AID GROUP MEETING, ASSISTED BY BANK AND GOVERNMENT DOCUMENTS, WILL PLAY IMPORTANT ROLE IN DETERMINING LEVEL AND TYPE OF HELP DONORS PREPARED TO CONSIDER DURING 1978-79. END SUMMARY.

2. STERN OF IBRD CHAIRED TWO-HOUR MEETING HERE DECEMBER 15 OF DONOR MEMBERS OF SRI LANKA AID GROUP (THIS WAS LIMITED OFFICIAL USE

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PAGE 02 PARIS 36870 01 OF 02 191624Z

CONVENIENT TIME BECAUSE REPS WERE IN PARIS FOR PAKISTAN CONSORTIUM SESSION NEXT DAY). DAA ADLER REPRESENTED US. PURPOSE OF MEETING TO BRING DONORS UP-TO-DATE ON GOVERNMENT'S NEW ECONOMIC POLICIES. RECENT WORLD BANK ECONOMIC MISSION AIDE-MEMOIRE ON ECONOMY ASSISTED DISCUSSION.

3. LMF'S SCOTT OPENED WITH REVIEW OF PRESENT STATUS OF SRI LANKA ECONOMY AND 1978 PROSPECTS. HE STRESSED THAT GOVERNMENT'S POLICIES REPRESENT MAJOR EFFORT TO RAISE DOMESTIC SAVINGS AND INVESTMENT, REVITALIZE AGRICULTURE AND INDUSTRY, AND INCREASE EMPLOYMENT OPPORTUNITIES. LIBERALIZATION ACTIONS TAKEN OR IN PROSPECT INCLUDE REDUCTION OF CONTROLS ON ALLOCATION OF RESOURCES ESTABLISHMENT OF REALISTIC PRICES, REDUCTION OF INTERNAL SUBSIDIES, AND REDUCTION OF CONTROLS ON EXTERNAL TRADE AND PAYMENTS (RUPEE ALREADY HAS BEEN UNIFIED AND PERMITTED TO FLOAT). AT SAME TIME GOVERNMENT INTENDS NOT TO SACRIFICE SOCIAL GAINS ACHIEVED IN PAST YEARS.

4. SCOTT CONCLUDED BY SAYING THAT IMPLEMENTATION OF THIS AMBITIOUS PROGRAM IS SHIFTING SRI LANKA'S EXTERNAL ACCOUNT INTO DEFICIT, ESTIMATED TO BECOME \$236 MILLION IN CALENDAR YEAR 1978 AND \$275-350 MILLION IN 1979. THE RECENT IMF STANDBY OF SDR 93 MILLION WILL HELP FILL THIS GAP, AND FUND EXPECTS PROVIDE FURTHER RESOURCES IN 1978 UNDER EXTENDED FUND FACILITY. HOWEVER, SUCH ASSISTANCE MUST BE RELATIVELY SHORT-TERM. THEREFORE FUND HOPES THAT DONORS WILL ASSIST WITH NEW, LONGER-TERM COMMITMENTS, ESPECIALLY QUICK-DISBURSING PROGRAM AID.

5. STERN ECHOED SCOTT AND ALSO ADDRESSED DEVELOPMENT PROBLEMS. HE STRESSED THAT NEW GOVERNMENT'S POLICIES LIMITED OFFICIAL USE

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PAGE 03 PARIS 36870 01 OF 02 191624Z

AND ACTIONS ARE ALONG LINES DONORS HAVE BEEN URGING FOR YEARS. THEREFORE GOVERNMENT DESERVES OUTSIDE SUPPORT. IBRD ECONOMIST BEING ASSIGNED TO COLOMBO TO ASSIST ON LONG-TERM MACRO DEVELOPMENT PLANNING. A BIG PROBLEM IS LACK OF READY PROJECTS; CANADA, UK AND DUTCH ARE PROVIDING TA TO HELP ALLEVIATE THIS PROBLEM. BLOBEL OF BANK BRIEFED ATTENDEES ON STATUS OF THE LARGE, COMPLEX LONG-TERM MAHAWALI GANGA MULTIPURPOSE SCHEME; SAID NEW GOVERNMENT WOULD LIKE TO SPEED UP IMPLEMENTATION OF MAHAWELI, BUT THIS MAY NOT BE PRACTICAL. BANK REPORT ON IT TO BE READY FOR MAY 1978 AID GROUP MEETING. THIS REPORT WILL INCLUDE FIRST BATCH OF PROJECTS FOR FINANCING CONSIDERATION, AND INDICATE WHERE ADDITIONAL FEASIBILITY STUDIES ARE NECESSARY. GOVERNMENT HAS AGREED TO ADVISE AND COORDINATE WITH BANK IF IT SEEKS ASSISTANCE FROM ELSEWHERE FOR PROJECTS RELATED TO MAHAWELI.

6. COLLECTIVE COMMENTS FROM DONORS INDICATED GENERAL SUPPORT FOR GOVERNMENT'S POLICIES AND SYMPATHY FOR IBRD/IMF CALLS FOR DONORS TO ASSIST IN THIS EFFORT. BUT THERE WAS ALSO CAUTION THAT PERHAPS THE TOTAL PROGRAM,

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PAGE 01 PARIS 36870 02 OF 02 191733Z
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INFO OCT-01 EUR-12 NEA-10 ISO-00 EB-08 IGA-02 L-03
CIAE-00 DODE-00 SP-02 SS-15 /112 W
-----098325 191738Z /40

R 191605Z DEC 77
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LIMITED OFFICIAL USE SECTION 02 OF 02 PARIS 36870

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BECAUSE OF ITS COMPREHENSIVENESS AND COMPLEXITY, MAY NOT BE COMPLETELY IMPLEMENTED IN LONG-RUN. US, GERMANY, ADB, NETHERLANDS, UK, CANADA, NORWAY, SWEDEN, JAPAN, FRANCE AND AUSTRALIA, ALL SPOKE FAVORABLY. MANY SAID THEY ARE PREPARED TO CONSIDER ASSISTING INDIVIDUAL SCHEMES ASSOCIATED WITH MAHAWELI COMPLEX. ON CAUTIOUS SIDE, GERMANY NOTED THAT REDUCTION OF SUBSIDIES AND MANY OTHER MATTERS ARE AT PRESENT INTENTIONS RATHER THAN FACTS. GERMANS ALSO DISAPPOINTED AT "BRAIN DRAIN" OF SKILLED WORKERS AND PROFESSIONALS TRAINED BY GERMAN AID GOING TO MIDDLE EAST COUNTRIES (BANK NOTED THAT THERE ARE FAVORABLE AS WELL AS NEGATIVE ASPECTS TO THIS, IN THAT UNEMPLOYMENT IS REDUCED AND REMITTANCES INCREASE). NETHERLANDS STRESSED DANGER OF HIGHER INFLATION THAT COULD RESULT FROM TOO RAPID INVESTMENT STIMULUS. SEVERAL FEARED THAT SPEED UP OF MAHAWELI COULD LEAD TO NUMEROUS PROBLEMS.

7. ALTHOUGH THIS WAS INFORMATION MEETING ONLY, SOME MEMBERS NEVERTHELESS INDICATED AID LEVELS. ADLER ADVISED OF U.S. PROPOSED 1977-79 LEVELS, SUBJECT TO
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PAGE 02 PARIS 36870 02 OF 02 191733Z

CONGRESSIONAL APPROPRIATIONS. ADLER ALSO DESCRIBED TITLE III, AND SAID WE ARE PREPARED TO CONSIDER GRANT FUNDING UNDER IT IF SUITABLE PROGRAM CAN BE AGREED. FINALLY, HE SAID WE ARE PREPARED CONSIDER ADDITIONAL FUNDING FOR MAHAWELI IN FY 1980, BUT WE AWAIT RESULTS OF FORTHCOMING JOINT IRRIGATION SUB-SECTOR REVIEW. GERMANY SAID IT WILL PROVIDE DM 41 MILLION THIS YEAR, AND HOPES TO INCREASE NEXT. CANADIAN AID WAY UP TO \$21 MILLION THIS YEAR, MAJORITY FOR PROGRAM IMPORTS. NORWAY, AS RESULT OF RECENT MISSION TO SRI LANKA, PROVIDING MORE PROGRAM AID AND FUNDS FOR TRAWLERS AND IS STUDYING A RURAL DEVELOPMENT SCHEME. DUTCH HAVE DECIDED TO INCREASE AID BY 35 MILLION GUILDERS FOR PROGRAM SUPPORT INCLUDING FERTILIZERS. FRANCE HAS LEVEL OF 30 MILLION FRENCH FRANCS PLUS WHEAT SHIPMENTS. SWEDEN, JAPAN, AND AUSTRALIA SAID THEY WANT TO DO MORE, BUT DID NOT GIVE NUMBERS.

8. COPIES OF REMARKS BY SCOTT AND BLOBEL AND DOCUMENTS USED AT THIS MEETING POUCHED TO ASIA/BIS. STERN SAID THAT IBRD DOCUMENTS FOR MAY MEETING WILL BE READY IN MARCH. SRI LANKA GOVERNMENT ALSO IS PREPARING DOCUMENTS ON DEVELOPMENT STRATEGY AND SPECIFIC PROJECT NEEDS FOR USE AT THAT MEETING. THE BANK AND GOVERNMENT DOCUMENTS AND THE MAY MEETING WILL BE IMPORTANT DETERMINANTS OF THE LEVEL AND TYPE OF HELP DONORS WILL BE PREPARED TO CONSIDER FOR SRI LANKA DURING 1978-79. KATZ

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